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GRAIN LEGISLATION AFFECTING WESTERN CANADA

I

There has never been a time when the commercial handling of western Canadian grain has been left to that "obvious and simple system of natural liberty" that Adam Smith recommended. The grain trade of the prairie provinces has always had some measure of state control. For as early as 1874, before western Canada had become developed at all, the Dominion parliament brought the whole grain trade of Canada (then practically eastern) under a General Inspection Act which provided, among other things, for the inspection of wheat. This act continued in force until 1886, when it was re-enacted in the revised statute of that year. The fact is of interest in that it shows that regulative measures which today "cabin, crib, and confine" this great industry are not only in growth coeval, but in germ actually precede the development of the industry itself.

Not until 1889 did there come to parliament an articulate voice from the grain men of the West. In that year, on the petition of the business interests of Manitoba and the territories, a bill was passed providing that a Standard Board should be brought into existence for the purpose of forming standards for the wheat west of Lake Superior. The grade fixed by this board governed the inspection in all parts of Canada in so far as wheat from the west of Lake Superior was concerned. The regulation set out by this bill proved too rigid, however, for owing to the vast extent of territory on which the wheat was grown, the differences of climate and the differences of conditions, at times it was exceedingly difficult to bring the wheat within the category of the definite standards laid down. This worked chiefly to the injury of the producers, and subsequently in 1891 another act was passed in their relief.

The statute of 1891 sought to remedy the defects of the preceding measure by giving more flexibility to the regulations. It allowed that if any considerable proportion of the crop of any year

had marked characteristics which would exclude it from a given standard, a commercial grade might be established. This simply recognized the fact that frequently a lot of wheat would just escape grading to a certain standard. If it had to drop to the next grade, the producer would lose at least two or three cents on the bushel. If, however, a commercial grade had been established, he would probably dispose of his grain within a cent or two of the higher grade price. It was to enable the producer to secure this extra gain that the amendment was inserted in 1891 in the measure of 1889.

Yet this did not allay discontent. Indeed, the scheme did not work out quite so well as was expected. The causes of the dissatisfaction seemed to have been in part in the act itself, and in part in the execution of its provisions. It was claimed by the farmers that the grade was made too high, and that the commercial grades were only established with some difficulty, and hence when there arose a need for them they were often not able to meet the concrete situation.

Other elements to some degree contributed to the dissatisfaction there existed with the bill. Inspection did not take place except at the terminal point, Fort William. By that time, if the grading was not satisfactory to the producer, the grain was beyond his control; he had really no redress. He could not, if displeased, elect to sell his grain in sample. Hence, he believed he often lost several cents on the bushel. Abuses had also crept in, in connection with the interior elevators. Rightly or wrongly the producers were convinced that they were being cheated on grades, and by means of undue weights and dockage. They were further incensed by the alleged practice of "mixing." This is simply mixing in with some inferior grain enough of a higher grade to enable it all to grade to the higher standard. As it works out it tends to put a worse grade in each case upon the world's markets than that accepted when grain is being delivered by the producer to the initial elevator. Thus all of these causes were working and were producing intense irritation, aggravated by a lack of really definite, sure knowledge of the actual facts. Under such conditions the most exaggerated statement is most likely to be the most widely accepted, and the

murmur of discontent increased in volume until it compelled attention.

In March, 1899, the Winnipeg Grain and Produce Exchange took the matter up and passed a number of resolutions demanding that "all grains in Manitoba and the Northwest Territories passing Winnipeg or Fort William or south or east thereof be inspected at Winnipeg and housed at Fort William or other eastern elevators on Winnipeg inspection." In response to this demand Sir Henry Joly de Lotbinière, minister of Inland Revenue, put through a bill creating the inspection district of Manitoba. The district included Manitoba, the Northwest Territories, and the region as far east as Port Arthur and Fort William in Ontario.

The bill provided that inspection should take place at Winnipeg or Emerson on the southern boundary and that inspection should be final as between the western farmer and the Winnipeg dealer. The settler could appeal if dissatisfied with the grade his grain received. The chief inspector became the arbiter in case of disagreement, and he was endowed also with power to probe charges of mixing in the terminal elevators.

Even this comprehensive bill failed to still the agitation that existed against the elevator companies, and a Royal Commission set about investigating the whole problem. They found that while downright extortion had not been deliberately concerted against the producers by the elevator owners, conditions were bad. The possibility of extortion was put within their power, and had probably occurred in individual cases.

The elevators' hold rested on certain shipping regulations enforced by the railways. It facilitates transportation for the railway to have cars loaded from an elevator. A car can be loaded from an elevator in fifteen minutes,¹ but when it is loaded from a wagon, or a flat warehouse without elevating machinery, a day at least is required. In the early days the Canadian Pacific Railway, the pioneer road, experienced great difficulty in getting grain loaded. At length it offered inducements to parties who would build elevators of a capacity of at least 25,000 bushels, and equipped with

¹ W. B. Lanigan, assistant freight traffic manager of the Canadian Pacific Railway, before the British Association in 1909.

proper elevating and cleaning machinery. At points where such elevators were erected the railway would not allow cars to be loaded with grain through flat warehouses, or from wagons. When granting inducements the railway imposed the condition that such elevators should furnish storage and shipping facilities for parties wishing to store or ship grain.¹ On the strength of these guaranties the elevators were built. The protection given to them placed the shipping of grain completely in their hands. No one desiring to ship grain in bulk could get it on cars otherwise than by having it handled through an elevator. Naturally such a system led to the abuses charged up against it, for no body of men can get another class completely in its power in an economic way without attendant evils developing.

Even apart from the specific charges of false weighing, undue dockage, and mixing, there was the general grievance to the grain grower that he practically could not if he so desired ship directly to the terminal and avoid elevator charges. This meant a net expense or loss to him of three-quarters and later of one cent to the bushel. That is if he had lots of grain it would pay him better to use his own help, otherwise idle perhaps, and himself, and avoid the elevator charges for forwarding grain. The farmer here found only two courses open to him: (1) to ship via elevator, or (2) to sell to a street buyer. Moreover, in places there was no competition between buyers. The farmer had to accept the first bid made or ship the grain himself. Often he did not have a carload (about one thousand bushels of wheat), and then he was yet worse off—he could not ship; he must sell for what he could get. It was the disclosure of these conditions that led the commission to draw the general conclusion that, practically speaking, the elevator owners had had it in their power to depress prices to the farmers and that it was to their interest to do so.

On the basis of the commission's recommendation to meet the case the Manitoba Grain Act of 1900 was framed and passed. This act has since undergone various modifications, but the real core of it remains the same and under its rules the great grain trade of western Canada is carried on today.

¹ *Report of the Grain Commission of 1899-1900.*

Last February, the Canada Grain Act, after another Royal Commission had reported on the grain trade, was introduced into parliament by the late Minister of Commerce, Sir Richard Cartwright. It received its first and its second reading, but, when reciprocity became the paramount issue, was laid over until after elections. It was designed to replace all¹ previous federal legislation on the inspection, transportation, and sale of grain. Its early introduction, with some important modifications, to be noticed later, has been promised by the new government.

II

Just here, before examining this body of federal legislation, proposed and actual, it is well to pause and notice the magnitude and variety of the interests affected by these measures. Let us begin with the basic industry, grain-growing. Roughly speaking the wheat field of the Canadian Northwest extends from Winnipeg westward nine hundred miles and is from three to four hundred miles wide. This immense area is not yet completely taken up, a recent estimate declaring that only about 5 per cent is under cultivation.² A good idea of the quantity of grain grown, exclusive of seed grain, can be got by the inspection returns. During the season of 1910-11, 119,740,850 bushels of grain were inspected at Winnipeg while 200,000 bushels of wheat and 11,700,000 of oats were sold locally. For the present season, from September 1 to December 21, 1911, 77,946 cars containing 90,700,525 bushels of grain have passed inspection at Winnipeg.³

The population of the grain-growing provinces is, Manitoba, 455,869; Saskatchewan, 487,892; Alberta, 375,434.⁴ While there is some lumbering, mining, and stock farming, it is no exaggeration to say that grain-growing, with its related and dependent industries, is the chief business of these people. Accordingly it is readily to be seen that legislation that touches the grain trade not only directly and vitally concerns the majority of people living in the

¹ Canada Grain Act, clause 246; Senate Bill Q, 1 Geo. V.

² W. B. Lanigan, before the British Association in 1909.

³ C. C. Castle, Dominion Warehouse Commissioner, Winnipeg.

⁴ Census Bulletin, January 12, 1912.

Canadian West, but indirectly, though no less surely, affects both the manufacturing centers of eastern Canada, whence the westerner buys his supplies, and the consumer of breadstuffs across the Atlantic, who looks to Canada as the bread basket of the empire.

At present the natural outlet¹ of the exportable surplus grown in this area is by Fort William and Port Arthur, at the head of the great lakes. This terminal is 420 miles east of Winnipeg. Winnipeg itself, on the eastern edge of the grain belt, where the grain is sold, is merely a transit point upon which the railway lines converge.

Thus the western Canadian grain grower is engaged in a business peculiarly hazardous and dependent on equitable regulation and careful handling. Any misadjustment is seen at once in losses to him. The natural difficulties themselves are formidable. He produces in immense quantity a perishable commodity, peculiarly dependent on climatic conditions, that after garnering must be hauled by rail a thousand miles and shipped and reshipped before it reaches the market of the world, to suffer then the price-variations due to supply and demand.

At every turn the grain grower is dependent on fair and wise methods of commercial arrangement. There is abundant opportunity for speculative methods to creep in and deprive him of his due reward. He may be robbed by excessive charges at the interior elevators, by excessive freight rates for the long haul, by excessive terminal charges, by the manipulation of grain prices on the Winnipeg market, by lack of forwarding facilities at any point along the line of carriage, by mixing and improper methods of grading. All of these possibilities seem more likely to occur, when it is considered that this grain reservoir, lying thousands of miles inland in the heart of the American continent, ships only to the British market and has, as yet, only one natural outlet to that market, and that outlet over four hundred miles distant from the outermost eastern rim of the producing zone.

But the western grain grower has no mind to sit down quietly and be exploited. If the physical facts of the West give a trend to natural monopoly, then he sees that monopoly must be curbed. As a class of men the grain growers are alert and progressive and

¹ Much is expected of the Hudson Bay Railway, work upon which has begun.

in favor of advanced legislation. They have already learned the benefits that accrue from mutual action. In each province there are powerful farmers' organizations: in Manitoba and in Saskatchewan, the Grain Growers' Associations; and in Alberta, the United Farmers of Alberta. These organizations were founded about ten years ago and have a combined membership of nearly 30,000.¹ Their aim has been to effect legislation beneficial to the western farmer, and particularly to safeguard the quality of western wheat going on to the markets of the world, and to protect the farmer from exploitation by the marketing interests.

The grain growers, because of their solidarity, are a weight in both the provincial and federal politics. They were behind the deputation of 800 farmers who waited on the Dominion government last January demanding progressive legislation.² Two of their demands then particularly interest us now. These are: (1) "that the Hudson's Bay Railway, and all terminal facilities connected therewith, should be constructed, owned, and operated in perpetuity by the Dominion government, under an independent commission"; (2) "that the Dominion government acquire and operate as a public utility, under an independent commission, the terminal elevators of Fort William and Port Arthur, and immediately establish similar terminal facilities and conditions at the Pacific Coast, and provide the same at Hudson's Bay when necessary; also such transfer and other elevators necessary to safeguard the quality of export grain."

The first demand exhibits the general and intense desire of the western farmer for an alternative route to the British market. He believes access to Britain via Hudson's Bay will cheapen rates, not only because it is a shorter route, but also because in providing needed competition for the route now used it will cut down the rates to a sharp competitive basis. Both demands show the western farmer's predilection for government ownership and administration by commission. The latter phase will receive fuller notice in connection with the legislation presently to be considered.

Probably next to the grain growers the railway companies are

¹ George Fisher Chapman, editor of the *Grain Growers' Guide*.

² See *Journal of Political Economy*, Vol. XIX, No. 2, p. 94.

most keenly interested in the grain business of western Canada. From the farthest grain-producing center to the lake terminal the distance is 1,270 miles; from the nearest, 429 miles.¹ From this territory there were handled last year 119,740,850 bushels, exclusive of grain hauled to intermediate milling plants. The cost of haulage from the farthest point to the lake front is 24 cents per 100 pounds, equal, on wheat, to 14.40 cents per bushel. Since the average car of wheat contains 1,060 bushels this rate is equivalent to 12.24 cents per car per mile. From Winnipeg to Fort William the rate is 6 cents per bushel. Rates on grain products are the same. Grain can be shipped and ground in transit at intermediate points at the through rates. It is obvious that low transportation rates affect the prosperity of the grain grower and insure the settlement of the contiguous area. This, in turn, comes back to the railway in larger shipments and greater supplies of commodities in the return cars. Possibly this is one reason why there has been little complaint against the rate charged for grain. The indictment against the railways has been of another nature.

Three great railway systems handle the bulk of the grain trade, and are actively building feeders and subsidiary lines to pre-empt territory as yet unsettled; for in the West the railway usually precedes the settler and opens the district for cultivation. These lines are the Canadian Pacific Railway, the Canadian Northern, and the Grand Trunk Pacific. They divide the trade in about the proportion of 70 per cent, 23 per cent, and 7 per cent. The last two roads will certainly largely increase their grain business as their lines become more fully completed and adjacent territory is settled. The Canadian Pacific Railway has lake-front terminal capacity for 13,885,000 bushels, the Canadian Northern Railway for 8,565,000, the Grand Trunk Pacific for 3,250,000. "The beginning of the grain season throws into commission 36,775 box cars, 1,046 engines, and an army of railway men."

After the railways come the elevator systems. At present at 919 stations there are 1,996 registered interior elevators and 30 warehouses with a capacity of 62,337,500 bushels. At six stations there are 19 terminal elevators with a capacity of 27,440,400

¹ C. B. Lanigan.

bushels. Hence the total elevator capacity at the present time is 89,777,900¹ bushels. A large number of these elevators are under the control of central companies, a few are owned by farmers' co-operatives; in Manitoba 164 elevators are the property of the Manitoba government. The great milling firms all have their own line of elevators; Ogilvy's Flour Mills have 116 elevators; the Lake of the Woods Manufacturing Company, 90; the Western Canada Flour Mills, 77; and the Maple Leaf Manufacturing Company, 47. These elevator concerns (1) ship grain charging approximately 1 $\frac{1}{4}$ cents for weighing, cleaning, and putting the grain on the cars (with the privilege of 15 days' storage); (2) buy grain to resell later to the greater wholesale firms or directly to the transatlantic consumer; (3) buy grain for their own consumption. Buying grain is the profitable end of the business in elevating and it is through the operations of the elevators in "street" buying that much discontent has been engendered against them. The interests of the elevator class is, of course, tied up with the present system. Naturally any attempt to operate elevators under a system of public ownership is bound to incur their active hostility. They are strongly intrenched and have a great deal of capital invested in plant. The physical-reproduction value alone of their elevators is probably in the neighborhood of ten or eleven million dollars.

Closely connected with the elevator business is the grain-dealing business with headquarters at Winnipeg. More wheat is actually received at Winnipeg than anywhere else in America. Until a few years ago Minneapolis led, but the more northern city has now passed her. The business of selling and buying wheat is carried on in the Winnipeg Grain Exchange. This exchange is a voluntary association organized like Lloyd's. Previous to 1908 the grain business was handled by the Winnipeg Grain and Produce Exchange, but in that year the legislature of Manitoba radically amended the charter, and to escape the new provisions a voluntary association was formed. The aim of the grain dealers is to buy cheap and sell dear. Of course, there are a number of straight grain commission merchants to whom it is of little moment how

¹ C. C. Castle.

the grain reaches them, provided they get it to sell. If anything, they are friendly to the farmers' demands, for the more grain that is simply stored and forwarded by elevators, the better for their business. But after all, it is the other type of grain dealer whose activities have aroused the grain growers' dislike. The elevator owner who buys grain and has a seat on 'change is a far more powerful factor in the situation. Indeed, a good many observers believe that the chief evils complained of in the grain trade lie at his door. The trend of his business is highly speculative. Buying grain at the initial elevator to sell at prices governed by the world markets is full of chances itself, and the dealer before he knows it finds his business taking a wider range and becoming involved in straight speculation. Now, the farmers believe, that when, as a result of 'change operations, a big surplus is made, that surplus goes into the pocket of the operator; but when a loss occurs the speculator uses his initial elevator system, with its quasi-monopoly at various points in the grain-growing district, to saddle the loss on the grain producers and thus make them suffer for his mistake. "Elevator legislation," said a Manitoba minister of the crown, "touches only the fringe of the real problem. The real difficulty lies in the grain market."

Co-operative organizations of farmers who have taken to marketing their own grain on the grain exchange have not escaped the evil they set out to avoid. They have begun by selling their own grain only, but the rewards have seemed so large and sure, the prospect so alluring, that generally they too have succumbed to the evils of speculation. Some years ago the Grain Growers' Grain Company was organized by members of the Grain Growers' Association to market farmers' grain. Shares were to be held by farmers and the principle of one man, one vote was to rule. The organizers believed they could do a good thing for the farmers and yet make money. The company has become strong and is now one of the largest dealers on the grain exchange. Yet its methods of business are scarcely to be distinguished from that of other companies. Its business is touched with speculation and some of its shares are now held by those who are not farmers or connected with the grain-growing business.

There yet remain to be considered the milling interests. The milling companies have their plants located at advantageous points throughout the grain belt and along the terminal route. They buy their own wheat on sample and store it in their own elevators. The problem of complete government ownership of elevators is made very much more difficult by these mill elevators. The milling firms can hardly be forbidden to buy grain for their own consumption, but their elevators introduce a disturbing factor into any scheme of government monopoly which as yet has not found solution. They are so strongly intrenched, and with their long strings of elevators they can offer superlatively effective competition at any points that lie in touch with government system.

The whole problem thus involves four groups of important interests, the producers, the dealers, the railways, and the millers. Now each of these groups is seeking in an immediate way its own advantage, and is not thinking of the problem from the standpoint of the other factors; indeed if it gains or maintains an advantage, it does so at the expense of one or all of the other factors. Legislation must be shaped to hold the balance true between these contending interests. The Dominion of Canada, the province of Manitoba, and the Province of Saskatchewan, have attempted individually to solve some part of this problem.

III

The Manitoba Grain Act of 1908 deals with the regulation of the grain trade and the standardizing and inspection of grain. It is based on the older bills and on the report of a Federal Commission appointed to investigate in 1905. The administration of the act is placed in the hands of the Warehouse Commissioner, whose office is located in Winnipeg. His duties are:

1. (a) To require all track buyers, and owners and operators of elevators, warehouses, and mills, and all grain commission merchants to take out annual licenses;

- (b) To fix the amount of bonds to be given by the different owners and operators of elevators, mills, and flat warehouses, and by grain commission merchants and track buyers;

(c) To require the persons so licensed to keep books in forms approved of by the Commissioner or by the Governor in Council;

(d) To supervise the handling and storage of grain, in and out of elevators, warehouses, and cars;

(e) To enforce rules and regulations made under the act, and to report to the Minister such changes therein as he deems advisable.

2. To investigate all complaints made under oath and institute prosecutions whenever he considers a case proper therefor.

3. To keep on file for public inspection, records of grain prices in the markets of the world.¹

It is to be noticed that control is secured by a license system. This is a natural development due to the fact that the supervision of the grain trade grew up under the Inland Revenue Department which has within its scope the arrangement of weights and measures. Out of the inspection of weights and measures grew the determination of grain standards and then the inspection also of grades. Thus government control over the grain trade began in a purely nominal way in connection with the excise system of the country rather than as a deliberate attempt to build up and control an industry. It is the logic of circumstances that has shifted the emphasis and placed the grain trade under the care of the Department of Trade and Commerce.

Terminal elevators and warehouses are under the closest supervision. A license is procurable only upon written application setting forth the name and location of the elevator, and name of each person interested as owner or manager. In the case of a corporation, the names of the officers must be given. If a violation of law is proved the license may be revoked by the Commissioner on approval of the Minister of Trade and Commerce. The bond set for a terminal elevator is not less than \$10,000 nor more than \$50,000. No discrimination dare be shown between persons desiring to store grain. Grain received must be inspected and stored with grain of similar grade. The grain is carefully checked when going in to the elevator and when being shipped out, as well as measured when in the bin. This whole care is to prevent mixing. Special bins must be provided for lots of grain over 16,000 bushels,

¹ Chap. 45 of 7-8 Edward VII, clause 7.

if desired. Grain must be cleaned and insured. If grain deteriorates after inspection the fact must be widely advertised so that the grain may not be shipped out at its nominal grade. Maximum charges are fixed by the Commissioner. A weekly statement must be given to the Commissioner of each kind and grade of grain in storage and the total amount of fire insurance thereon. The elevator manager is further required to give to the Commissioner a statement as to the business being done by the elevator and also to give access to all books and documents when so required.

Despite these wide regulations the terminal elevators have continually been under criticism. The Commission of 1905 reached the conclusion that government ownership of terminal elevators was unnecessary though they believed that careful control would be necessary to eliminate all the abuse originating there. Then followed the act of 1908. But in December, 1909, four of the terminal elevators were charged with discrepancies. In the case of one, the discrepancies were found to be of a clerical nature. In another case, which was not very flagrant, the company was fined \$50 for sending in a false return. In the other two cases it was abundantly proved that mixing had been going on. For example, in the case of the Port Arthur Elevator Company, the shipments of No. 1 Northern exceeded receipts by 169,066 bushels. In No. 2 Northern there should have been on hand 291,742 bushels and there were only 175,096, a shortage of 116,646 bushels. In No. 3 Northern there should have been on hand 346,460 bushels, and there was a shortage of 180,205 bushels. In No. 4 Northern a shortage of 4,968 bushels was found. What had happened was obvious: the higher grades had been used to doctor the lower ones. The company was charged with sending in false returns and fined \$2,500 and threatened with the loss of its license.¹ The incident might be interpreted in two ways as showing either (*a*) that practices of this sort could not be carried on without detection, or (*b*) that despite close surveillance grain mixing on a large scale was actually going on under the eyes of a great staff of checkers and inspectors. The latter view was the one generally accepted.

Another point of attack on the terminal elevators was that the

¹ Report of C. C. Castle to the Department of Trade and Commerce, April 22, 1910.

terminals were not merely run as common carriers but their elevators are controlled by men who have an interest in the handling of the grain there. The commission reported that "The private corporations operating the terminal elevators at Fort William are composed largely of the shareholders, officers, and directors of grain firms and country line elevator companies at Winnipeg." Accordingly it is claimed that if a farmer attempts to store grain there he does not get fair play. He may put in a good grade but all he gets out is bare grade. In a word, manipulation of all sorts goes on in the interest of the "ring" who control the grain trade.

The Canada Grain Act of 1911, which was held up because of reciprocity, will probably be introduced presently into parliament for reconsideration with some important changes. As it stood as a first draft, it was an attempt at closer regulation providing for ownership or operation, if necessary. Instead of one warehouse commissioner a board of three commissioners was to be established residing at the lake terminal. It is probable the new bill will declare more clearly for government ownership of terminals, as that was the policy enunciated by the present government when in opposition. This will meet the grievance already indicated of terminals being owned by men interested in the grain in them.

The proposed 1911 act practically reproduced the previous regulations for interior elevators, warehouses, and loading platforms. As in the case of the terminal elevators, the initial elevators are licensed and bonded. If the operator of a country elevator receives grain he must clean it and weigh it in the presence of the interested parties. He must give a receipt showing: (a) the gross and net weight of such grain; (b) the dockage for dirt or other cause; (c) the grade of such grain when graded conformably to the grade fixed by law and in force at terminal points; and (d) that the grain mentioned in such receipt has been received into store, whence he must ship it out on demand within twenty-four hours. If he buys it, he must give a cost purchase ticket which he must redeem within twenty-four hours if asked to do so. If he does not, the seller may demand a warehouse or storage receipt, and get back his grain for shipment or storage as he pleases. The rights of the operator are safeguarded in that in case of unpaid charges he may

withhold the bill of lading and in case the elevator fills up he may ship out the grain to a terminal elevator and be liable to the owner for its delivery there in the same manner as if the owner himself had ordered its shipment.

If a shipper secure a special bin for his grain the operator must draw a fair sample which shall be numbered and sealed, and in case of dispute be the basis of a ruling decision by the Chief Inspector. In fact in case of any disagreement a sample must be submitted to the Chief Inspector on whose ruling final settlement is made.

Under these provisions initial elevators conduct business. The great majority are "line" elevators. These are elevators usually with a capacity of over 25,000 bushels. They are equipped with weighing apparatus and laid out to handle grain in bulk. That is, enough bins are provided to take care of the six standard grades and all grain of a grade is stored together. If a producer ship in No. 1 Northern it must be shipped out as such, but the identity of any given lot of grain is not preserved. This bulk system is one of the outstanding characteristics of the Canadian method of handling grain as opposed to a sample or bagging system.

Many farmers cherish a grievance against the bulk system. It arises in the fact already pointed out that if a farmer's wheat is above the average of the grade though not high enough to grade a standard higher he loses the difference. The merits of a sample market as a remedy for this will shortly in this article be considered. At the present point it may be noted that few of the line elevators are equipped with special binning facilities and until the putting down of loading platforms it was difficult in such a case to ship in order to sell the lot at Winnipeg. This grievance accounts for most of the demands for special binning elevators.

The rush of grain to be stored or shipped out is so heavy between the time of harvest and the close of lake navigation that provision is made in the act for the erection of storage warehouses at suitable points along the railway. Practically at all points in the West all the grain within a radius of five miles of a shipping point is sent direct from the threshers to the elevator or loading platforms which, of course, increases the congestion. On a written application of any person within forty miles of a railway shipping point

the Commissioner may give permission for a warehouse of at least 3,000 bushels. The railway company is compelled to give an approved site at a rent not greater than that charged to standard elevators. The owner of such a warehouse cannot use it for grain he himself has purchased. No farmer is allowed to have more than one bin at a time and the grain must be shipped out within a week if cars can be secured.

The erection of these warehouses was expected to make the farmer more independent of the line elevators; but few were built,¹ possibly because a more convenient method of independent shipment has been hit upon. This method is by means of loading platforms. On a written approved application of ten farmers within twenty miles of the nearest shipping point the railway is required to build a loading platform of specified length and width for the purpose of loading grain directly into grain cars. All persons desiring to use these platforms may do so free of charge. The railway company is required to build these any time between the first of May and first of October and after the application has been sanctioned must construct them within 30 days or pay a fine of \$25 for each day's delay beyond that time.

Today this is considered the least costly way of shipping grain when a farmer has a carload of one grade and kind. After threshing is over the easy season comes on the prairie farm, and if a farmer can ship his grain in this way he saves to himself the cost of elevator handling. He is able then to sell it at Winnipeg through a commission merchant, generally at an advance over the elevator street buyer's price, and he is sure of the identity of his grain when it is sold. In the season of 1910-11, 105,160,723 bushels passed through the elevators while 26,280,127 bushels were shipped from loading platforms. More undoubtedly would be shipped in this manner but it is only the large farmer who has carload lots of any particular grade. For the smaller lots the farmer must still sell through a street buyer or ship via an elevator. He thus must suffer the loss of the "spread" between track and street prices.

In connection with platform shipping elaborate precautions are inserted to prevent discrimination in the securing of cars. Priority

¹ There are 30 warehouses at present as against 1,996 elevators.

of application rules, but in case of general congestion each applicant receives one car as quickly as cars can be supplied. This provision is due to the serious blockades that frequently occur. On December 1 of this season, for instance, lack of cars and storage facilities were reported at 150 points in the West. At fifty-seven of these points the blockade of grain movement was almost complete.¹ In consequence of such conditions settlements are delayed, money ceases to circulate because there is none coming in, and the evil effects of the stoppage are quickly distributed throughout the whole community. This explains very largely the careful regulations designed to keep grain moving out in an orderly manner all over the grain-producing area.

Commission merchants and track buyers are licensed and bonded in the same manner as the elevator companies. In the case of the merchants, the Commissioner requires a statement of the business carried on. This statement is available for court use in the case of suit.

Inspection of the grain is made by the federal government's corps of inspectors while the grain is at Winnipeg. Inspection is repeated at the terminal elevators.

Rather heavy penalties are imposed for violation of the Manitoba Grain Act in any particular. In the case of application for cars, selling or purchasing the right to load a car, or loading a car not allotted, or applying for one in the name of another unless a duly authorized agent is strictly prohibited. In general, the fines to be imposed on convicted offenders range from \$10 to \$2,000; and provisions are included according to which informers may receive a share of penalties exacted. The prevalent penalty varies from \$10 to \$1,000. The proposed act of 1911 made it an offense for the owner of a terminal elevator to deal in grain, and set down a penalty of not less than \$5,000, or more than \$20,000 fine, with imprisonment for a term not exceeding two years, if he did. The same penalty was laid down for mixing grain in terminal elevators. It is evident that these penalties will be re-enacted in the bill when it comes before the House again, unless the assumption of government ownership of terminals makes them unnecessary.

¹ *Manitoba Free Press*, December 1, 1911.

IV

Against the system of control just outlined the grain growers of Manitoba and Saskatchewan, about two years ago, entered energetic protest. They alleged *in extenso* that the system inevitably resulted in the operator of the initial elevators giving lower weights than the farmer was entitled to;¹ in excessive docking for dirt; in unduly depressing grades and prices; in jockeying for cars; that there frequently was no cleaning apparatus; that farmers were refused special binning; that good grain was selected by the elevators for their own orders; and that the inferior grain of the grade was passed over to the farmer. In brief, after twenty years of experimental grain legislation the farmers of the prairie provinces were loudly complaining they were being cozened and robbed under a governmental system that played into the hands of the "interests." The banks, too, were accused of giving the big interests a monopoly of credit and thus forcing the farmer to sell his grain as soon as threshed. The railways were charged with supplying leaky cars, constructing inconvenient loading platforms, and favoring the elevator and milling companies as against the farmers. The grain growers were especially bitter against the terminal elevators. The steps have already been noted which were taken in the Canada Grain Act to remedy the serious evils that undoubtedly existed.

The grain growers declared the grading system unfair to grain slightly bleached, smutted, or frosted; maintained that the grades did not represent the value of the grain for milling purposes, and that selling by grade enabled the millers and elevators to fix prices on the basis of the lowest level of each grade. Nothing escaped their condemnation: it was an omnibus indictment which included the millers, the grain exchange, the railroads, the banks, and the

¹ Manitoba Grain Act, clause 52: 2. Persons interested in the weighing of grain, at any country elevator or warehouse, shall have free access to the scales while such grain is being weighed, and shall if the facilities exist, and if they so desire, have ample opportunity after the cleaning is done of personally ascertaining the net weight of the grain cleaned.

This regulation is really of no avail when there is a long line of wagons of grain waiting to go into the elevator. When the grain is coming direct from the thresher, there is no time for this sort of work.

terminal elevators. And they summed up their case by demanding in Manitoba and Saskatchewan provincially owned initial elevators, and for the federal government, federally owned terminals and a sample market at Winnipeg, with the speculative element as far as possible eliminated.

In regard to the demand for provincially owned initial elevators the governments of Manitoba and Saskatchewan pursued different courses. The former government acceded to the demand; the latter, more astute, appointed a Commission to investigate. This Commission did so, and reported to the legislature recommending a co-operative scheme which has since been embodied in legislation. Thus in these two adjacent provinces there is at present in progress an experiment of some magnitude in handling grain. It is really too soon to make a thorough comparative study of the two systems—they have not been in operation long enough—but some considerations suggest themselves.

V

The Manitoba Grain Elevator Act received assent on March 16, 1910. The bill provides for the acquisition of elevators in Manitoba on a basis of their physical valuation and empowers their operation by a board of three commissioners appointed by the government. The whole aim of the bill is to afford all reasonable facilities in elevators for the receiving, storage, forwarding, and delivery of grain. This grain may come either from farmers who are shipping their grain to Winnipeg to sell through commission houses, or from wholesale dealers employing street buyers. In every case samples must be taken and these must be exhibited by the commissioners to prospective buyers. In no case shall the government acquire an elevator until a petition has been received by 60 per cent of the grain growers contributing to the elevator proposed to be purchased.

In May, 1910, the commission was appointed. Their first report was rendered to the legislature in February, 1911. The report stated that 240 requests were received and 163 elevators were purchased. Forty petitions were also received for new elevators and ten points were selected where new elevators of the special binning type were built. The total cost of the 173 elevators

was \$814,710.40. The report on the whole was dismal reading. At the time the system was proposed confident claims had been put forth that it would pay its way. This in its first year of operation it failed to do. The cost of maintenance was \$65,144.77, the revenue was \$60,494.54. There was thus a clear deficit of nearly \$5,000, leaving out of consideration the interest payable on \$929,730.83 expended on capital account. This money, raised for the purposes of the act, is secured by the issue of bonds by the Province of Manitoba and it is stipulated that they shall not pay interest at a rate exceeding 4 per cent per annum half-yearly. Calculated at the lowest rate at which money is obtainable, and charged up, this item of interest makes the commissioners' statement appear very much worse, particularly when there is added the fact that nothing was written off for depreciation.

Such a report could not fail to provoke criticism. Two lines of attack developed. First, it was alleged that the elevators purchased had in many cases been bought through political friends of the government at exorbitant prices. Hon. A. P. McNab, in the Saskatchewan legislature, declared that nineteen elevators purchased from the Dominion Elevator Company at a cost of \$5,662 each could each under different circumstances have been bought at \$2,000¹ less. In some cases it was claimed the elevators were old, "over twenty years old, fit for the junk heap." These charges were possibly a good deal exaggerated, but the residual fact remains that no government in western Canada can go into the elevator market and secure elevators cheaply. The Manitoba government fared as well in its purchases as governments usually do.

The second line of attack on the Manitoba scheme is much more formidable. It starts with the fact that apart from purchase price and depreciation there was a deficit. It declares that in the nature of the case nothing else can be expected; that the scheme is ill-devised and costly to the province, without promise of adequate return. Of course, something must be allowed for the first year of operation, and the fact that the enterprise has not paid its way from the first does not in itself necessarily mean it could not pay when better established. Yet there is solid ground for doubt that

¹ *Regina Leader*, February 2, 1911.

it will ever pay under the present system. The elevator commission took over 163 elevators, all of which were presumably paying for their maintenance² before they came under the new management. These are now operated at a direct loss. Why should the results be different? Does it lie in the incapacity of the commissioners or the unworkableness of the scheme devised by the legislature? Undoubtedly the latter cause is the true one. The commissioners are not markedly inefficient, even though they are not markedly clever. They have had long experience in the grain business, and may be acquitted of laxness.

But the scheme of operation is too narrow. They are confined strictly to the business of forwarding and storing grain. Clause 16 of the act sets forth: "The commissioners shall afford all reasonable, proper and equal facilities for the storage of grain in elevators operated by them and for the receiving, forwarding, and delivery of grain stored in such elevators." Apparently the Manitoba government forgot that under the competitive system the line elevators do not make their money in the elevating end but rather in the buying of the grain. The "spread" between track wheat and street wheat varies from two cents to ten cents a bushel. In buying grain the elevators perform quite a legitimate function, for very often farmers have less than a carload of any grade. This business of buying small lots is very profitable, but despite its lucrativeness the government elevators are quite shut out from it. According to the act the toll charged for services shall not exceed the charges fixed by the Warehouse Commissioner. But these maximum charges have never really been fixed by the Commissioner because charges for elevatorage have actually ranged lower in western Canada than across the line.

The Manitoba commissioners are in a dilemma. If they meet the competition of the line elevators who have the advantageous position in fixing prices for grain handling and storage, because of other sources of income, they must operate at a loss. If they charge prices that will remunerate them they certainly will get the business only where they possess a monopoly and will furthermore

² In some cases they were very likely not earning a return on the investment of capital. In some parts of Manitoba there are too many elevators.

cause great discontent among the farmers. The loyalty of the Manitoba farmer to government elevators does not extend to that point where it entails pecuniary loss to himself.

The government has indicated that a complete government monopoly is contemplated. This would give a much greater chance of success to the scheme. Yet several considerations suggest themselves against such a plan on the narrow basis of mere storage and shipment of grain. (If the bill were amended to permit the buying of lots of less than a carload the case would be quite different.) There are 707 elevators and 12 warehouses in Manitoba. One hundred and sixty-three elevators have come under the control of the Manitoba government. That leaves 544 elevators and the 12 warehouses still to be secured. These are not likely to be bought at a low price, and heavy initial costs will continue to burden the government's enterprise. If they are to be operated without loss the cost of grain handling will be higher than elsewhere. Particularly will this be true if they are not operated so cheaply under government monopoly as under competition. What will be the effect? It will surely mean continued dissatisfaction among the grain growers. Suppose, on the other hand, the prices charged are as low as elsewhere and annual deficits are encountered. These deficits will have to be met out of the general funds of the province. Is that likely to prove satisfactory? It is not. While it is quite true that to a large degree the prosperity of Manitoba as a whole is bound up with the prosperity of her farmers, Winnipeg has become the *entrepôt* of the whole Northwest. Her prosperity is conditioned by a very much larger area than the province. By the recent census, moreover, Winnipeg, with its suburbs, has over one-quarter of the population of the whole province. There will be a general distaste for paying deficits year after year, and in Winnipeg this distaste will become acute. Any scheme which may involve the taxation of one-quarter of the population for the benefits of the other three-quarters deserves to be handled cautiously.

A government monopoly of elevators in Manitoba would certainly involve a change in the organization of the grain business, but it is to be questioned whether that change would really give the farmer any more protection when he needs it than the present

system does. The point is this: Where a man has a carload of a grade he can ship it from a loading platform and be independent of the elevator. Now, even with binning elevators, such as the government is erecting, the carload is the shipment unit. If there is less than a carload, special binning facilities are of no use. The grain must be sold to a street seller who is buying from more than one seller. Thus the grain grower, in this case, will not be bettered, for a middleman has come in between him and the large wholesale grain buyer. A hint of this state of things has already occurred at points where the Manitoba government has purchased all the elevators. Indeed, at first, a worse situation arose, for at some points no street buyers appeared at all and the farmers suffered inconvenience and loss.

A very practical obstacle to government ownership develops in connection with the milling firms. These firms have their large elevators where they purchase and store grain. Their continued operation would make incomplete and ineffective any scheme of government monopoly. Yet on the other hand it would certainly appear to be an impossible proceeding to restrain them or expropriate their elevators and force them to buy their grain for their own use through street buyers or on the Grain Exchange or from a sample market. The existence of these systems of mill elevators is one of the knottiest problems that come up in considering the establishment of a government elevator monopoly in Manitoba.

VI

The legislation enacted in Saskatchewan is quite different in nature from that passed in Manitoba. It will be recalled that when demands were made for legislation the Saskatchewan government appointed a commission to investigate and report on a feasible method of remedying the farmers' grievances. The commission spent about three months taking evidence. They presented their report to the legislature at the 1911 session unanimously recommending a system of co-operative elevators with financial aid from the government. They rejected the Manitoba scheme and one similar but of wider scope presented by the executive of the Grain Growers' Association, basing their rejection on the fact that there

was already excessive storage capacity in the province, and on a recognition of the various grave disadvantages the government would be under in operating elevators in competition with private trading companies. In the co-operative system they outlined they aimed to secure "the maximum amount of local control consistent with ownership by the whole body of shareholders, and management through a central board of directors."

On the basis of this report the government drafted a bill which was passed by the legislature. Its principles were also accepted, after stirring debates by the grain growers who were in annual convention when the act was being deliberated upon in the legislature. The act incorporated the Saskatchewan Co-operative Elevator Company, the names of the Grain Growers' executive committee being inserted as provisional directors. The company was given power "to construct, acquire, maintain, and operate grain elevators within Saskatchewan; to buy and sell grain and generally to do all things incidental to the production, storing and marketing of grain." The amount of capital stock is to be fixed by the Governor in Council and is divided into shares of \$50 each; is to be sold only to agriculturists; no person to hold more than ten shares.

The basis of the company is the local unit. Any number of shareholders may request the directors to establish a local at any railway point in the province. The directors, however, may not "establish a local, without the consent of the Governor in Council, unless it appears that the amount of shares held by the supporters of the proposed local are at least equal to the value of the proposed elevator, that 15 per cent of the amount of the shares has been paid up and that the annual crop average of these shareholders represents a proportion of not less than 2,000 acres for each 10,000 bushels of elevator capacity asked for." The locals on establishment appoint a board of management of five to look after the elevator and also elect delegates to attend the general meeting. These delegates in turn choose the nine directors of the company, who are elected for three year terms, three retiring each year. In the locals each shareholder has one vote per share up to five; if he has shares in excess of five he is unable to vote on them.

The books of the company are audited by the provincial auditor. If there is a surplus after operating charges and maintenance are paid, the shareholders are to receive dividends up to 6 per cent. The balance is to be divided into two equal parts, and half paid to the shareholders on the basis of the volume of business done with the company, or on some other method to be devised by the company. The other half of this residue is to be set aside as a reserve fund available to pay expenses in an unremunerative year of business.

One of the main features of the bill is the assistance the government guarantees to the company. The Lieutenant-Governor in Council is authorized to loan from time to time to the company for the purpose of aiding in the acquisition or construction of any local elevator a sum not to exceed 85 per cent of the estimated cost of the proposed elevator. The sums loaned are to be repaid in twenty annual equal payments.

These are the chief provisions of the Saskatchewan Co-operative Elevator Act. It will be clear that the aim has been to retain the advantages of the present competitive system while doing away with the farmers' grievances by putting the conducting of the grain business into the hands of the farmers themselves whenever they choose to take it up.

Two clauses of the act have received a great deal of attention and criticism. The clause stating the powers of the company at first confined it to "all things incidental to the storing and marketing of grain." In the last days of the debate an amendment interjected the word "production" into the clause so that it would read "all things incidental to the *production*, storing, and marketing of grain." The amendment passed with a large majority though the Cabinet split upon the question and two members of the government voted against it. The inclusion of the word "production" confers wide powers on the company and enables it to trade in all sorts of farm machinery and binder-twine stock: in brief, in a very large measure to compete with all the trading interests in the province. Yet anyone who comprehends the local situation in many parts of Saskatchewan will fully understand why power in this direction is sought. The reason for the demand is

found in the peculiar conditions of the specialized grain farmer. He requires a very large supply of the largest and best farm machinery. This machinery is most expensive; for example, a threshing outfit costs about \$5,000, and one is sufficient for a large district. In the newer districts scarcity of threshers has caused much loss and hardship, while in many districts a venture into the purchase of an outfit by one man has ultimately resulted in heavy losses to him.

These hard lessons of experience as regards machine companies have taught the western farmer that much risk and worry might be avoided if in some corporate way the farmers of a district could organize and purchase machinery on easier terms, and, in the case of threshing machines, for general use. It was to authorize functions of this sort that the word "production" was inserted into the bill. The gains of the local machine agent are not small. An agent's commission on a single threshing outfit is at least \$500, and that on other machinery is proportionately as great. The ideal exists, that if the Co-operative Elevator Company could place large orders for a great number of local units combined it could procure needed machinery at much lower prices than now rule. Saskatchewan would no longer be a paradise for the machine agent. The elevator company has it in its power now to do genuinely effective co-operative work of this sort. But it must be noted that the credit side of the business, if not carefully handled, will easily result in losses.

The other clause of the bill under criticism, which lays down that the government's financial assistance may amount to 85 per cent of the value of the elevator to be built, is not susceptible of so solid a defense. Its weakness lies not in the fact that the government is to render assistance to the co-operative elevators, nor in the guaranties the government exacts for the money lent, but rather in the way in which this money is to be obtained by the elevator company. The Lieutenant-Governor in Council—that is, the Cabinet—has discretionary power as to the terms and conditions of the sum, up to the 85 per cent limit, that shall be lent at any time to a local unit. Such a provision opens up a vista of all sorts of complications that may arise and that do so often arise

when pecuniary favor lies in the gift of a dominant political party. Canadian constituencies before now have been warned that the election of a government candidate would mean "warm sympathy" in the matter of public works, but the election of an opposition member would mean simply "cold justice." This clause, as long as elevators continue to be needed, puts another instrument into the hands of a reigning government whereby it may swing a recalcitrant constituency into line. Of course, such a circumstance may never occur. That depends on the singlemindedness to duty of the officers of the Elevator Company and on the probity of the government. In the past the grain growers' associations of the different provinces have shown a tendency to go into politics. The experience in other countries has been that the less co-operative societies have had to do directly with politics the more stable they have become. One cannot but feel this would be the safer course for the grain grower of the West to pursue.

It is possible that these defects might be surmounted by the appointment by the provincial government, or legislature, of a Commissioner, experienced in elevator business, whose duties should embrace all transactions between the government and the Elevator Company. Indeed he might also act in disputes or differences which arose in any case between the local units when a minority felt they were unjustly treated. This would further tend to make unlikely a condition freely predicted now, viz., that after the Co-operative Elevator Company gets properly going there will be a tendency by the strong group to treat the weaker and less profitable units cavalierly, and that presently the Co-operative will be no more sympathetic to the needs of the less developed districts than are the line elevators of today.

A possibility in the co-operative scheme is that if it is not carefully guarded against it will become speculative and losses may occur. Sound management should make this unlikely. Sound management in the case of the Saskatchewan scheme is the open sesame to success. The organization is intended to be a corporation of democratic nature with vast powers. If these powers are used properly it should be a potent instrument for good to the agricultural interests of the province.

The company has not been in operation a year, so that excellences or weakness have not had time to disclose themselves. The company's work¹ for the present season has been to organize 46 locals. Arrangements have been made for 40 new elevators and six have been purchased. Twenty-one of the elevators were completed in time for operations this year and already over a million bushels of grain have passed through them, about one-third of which was purchased and the remaining two-thirds of which were specially binned for the farmers.

VIII

In both the provincial schemes, when new elevators have been constructed, special facilities have been provided for special binning. This is one of the pet ideas of the western farmer. His idea is by this means to preserve the identity of his grain, sell by sample at Winnipeg, and thus get more for it if it is a particularly good grade. The idea would be right enough provided the buyer had the privilege of mixing his grain, or if Winnipeg were a consuming center rather than a point in transit. But the privilege of mixing has always been denied. It has been contended that it would destroy the reputation of western grain abroad and, as has already been noted, in the Canada Grain Act, the last legislation before the federal house, the penalties for mixing were made heavier than ever. The idea deserves further examination. The scheme contemplates, at present, a system directly opposed to the grade or bulk system of handling grain. It looks to a sample market such as there is in Minneapolis. But the conditions are altogether dissimilar. Minneapolis is a terminal point. There are all sorts of mills located there using grain of every kind to cater to particular groups of customers. Grain in Minneapolis is finally disposed of to these consuming interests. Winnipeg is merely a transit point with relatively small milling capacity. Had Winnipeg as large a milling capacity as Minneapolis a sample market would be both necessary and beneficial.

On the other hand, to have a sample market trade in export grain without yielding the privilege of mixing would necessitate doubling

¹ *Manitoba Free Press*, November 17, 1911.

the size of the Winnipeg railway yards to prevent congestion; would involve the detention of cars forty-eight hours while the grain is being sold; and would call for special binning facilities at the terminal points. This, in turn, would further necessitate the sorting of cars for particular elevators and particular places in these elevators, and the reorganization of the handling of grain by the inland marine, in the eastern transfer elevators and on ocean-going vessels, so that identity could be preserved until Liverpool was reached. It would work out in this way because no grain dealer at Winnipeg is going to buy an extra good grade on sample simply to ship it as such if identity is not to be preserved. Similarly if an English milling company buys on sample at Winnipeg it too wants identity kept or it might as well buy at Liverpool. Thus it would appear that, unless the privilege of mixing is conceded, while the system is attractive the increased expense it would entail makes it in pecuniary returns inferior to the present system of selling on grade and hauling in bulk. Whether or not the privilege of mixing would tend to endanger the reputation of Canadian grain on the British market would largely depend on the efficiency and vigilance of the inspecting staffs at the terminal elevators.

The farmers of western Canada wish to sell their grain on sample and it is not unlikely the experiment will be made, though the more natural course of development, in line with the past, would be in the direction of finer and more careful grading, more rigid control of the present system of transportation, and government ownership or operation of the terminals. There is scope also for the development of farmers' co-operative banks. The same persons who control the milling and elevating business count on a good many bank directorates, and the Canadian centralized banks have not been over-sympathetic with the needs of the western grain districts. Many of the farmer's difficulties arise from the fact that the sale of his grain in many cases is really a forced sale. As yet he is not strong enough, financially, to hold his grain in a store-house after threshing until the market suits him. The banks are chary of assisting him. The fact here, of course, must not be blinked that even wealthy farmers prefer in many cases to ship direct from the thresher with one handling. Prices are frequently

higher just at that time, becoming lower as the lake shipping season ends. But legislators in western Canada who can adapt to these provinces a system of farmers' co-operative banks such as have been successful in Germany and Ireland will indirectly have helped to remedy some of the most pressing grievances the farmers complain of in connection with handling their grain.

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